

# Sustainability statements<sup>1)</sup>

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## About this report

This report has been prepared in accordance with the GRI Standards 'Core' option.

The reader will find relevant sustainability information in each part of the report. These statements provide SKF's stakeholders with transparent information on the Group's sustainability performance according to GRI Standards.

### Topics related to the Annual Report

In addition to the information provided in this Annual Report, related Topics can be found at [skf.com/ar2018](http://skf.com/ar2018).

- GRI content index<sup>2)</sup>
- Carbon dioxide emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2018

### Statutory sustainability report

SKF has prepared a separate report according to the Swedish annual account act on sustainability reporting and reports on the topics:

- **Business model** page 12,
- **Anti-corruption** page 129,
- **Environment** pages 131–135,
- **Employees** pages 136–142,
- **Human rights and other relevant social topics** pages 143–146.

Risks associated with the topics above are found in connection to the topics, in SKF's overall risk management on pages 58–61 and on pages 122–123.

1) As defined by GRI Standards

2) Documents subject to limited assurance by SKF's auditors.

# General disclosures

## Organisational profile

### 102-01 Name of the organisation

AB SKF

### 102-02 Activities, brands, products, and services

The SKF Group is a leading global supplier of products, solutions and services within bearings, seals, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimisation, engineering consultancy and training. Examples are found in this report on pages 2–5, 21–24 and 54–57. For information on SKF's brands please refer to [skf.com/brands](http://skf.com/brands).

### 102-03 Location of headquarters

SKF Group headquarters is located at Hornsgatan 1 in Gothenburg, Sweden.

### 102-04 Location of operations

SKF operations are global, the Group has manufacturing operations in 24 countries and direct sales channels in 70 countries. The Group is present in 130 countries. A list of SKF operations can be found in Topic related to the Annual Report on [SKF.com/ar2018](http://SKF.com/ar2018). SKF's manufacturing, sales and other operations are also presented on pages 119–116 in this Annual Report.

### 102-05 Ownership and legal form

SKF provides articles of association on [skf.com/ar2018](http://skf.com/ar2018). These are part of Topics related to the Annual Report. In addition, information on shares and shareholder information can be found on pages 51–52.

### 102-06 Markets served

Page 2 provides an overview of geographies and industries served. Information on Industrial and Automotive segments are further described on pages 4–5 and 54–57.

SKF sometimes describes its business as customer industries, more detailed information on these is available at [skf.com/skfs-business](http://skf.com/skfs-business).

### 102-07 Scale of the organisation

Information on the SKF Group and its operations are found in various sections in the report. Employee information is found on this page and on page 104.

SKF Manufacturing and other operations are presented on [skf.com/ar2018](http://skf.com/ar2018).

Net sales are presented on page 66 and broken down further in the financial statements on pages 77–78.

Total capitalisation broken down in terms of debt and equity are presented in the financial statements on page 69. SKF has delivered 457,000 tonnes of bearings 2018. In addition, the Group has delivered seals, condition monitoring, lubrication systems and services.

### 102-08 Information on employees and other workers

#### Employees and other workers by employment type

2018	Indefinite		Temporary		Agency	Total
	White collar	Blue collar	White collar	Blue collar		
Western Europe	9,165	10,989	65	396	1,089	21,704
Asia and Pacific	3,350	6,585	11	349	2,118	12,413
North America (incl. Mexico)	2,081	3,713	24	4	237	6,059
Eastern and Central Europe	866	2,973	21	536	269	4,665
Latin America	756	2,051	5	23	58	2,893
Africa and Middle East	395	70	0	0	38	503
<b>Total</b>	<b>16,613</b>	<b>26,381</b>	<b>126</b>	<b>1,308</b>	<b>3,809</b>	<b>48,237</b>

Data was collected from the Group's financial consolidation system per all operational units within the Group. The numbers represents headcount per year end December 2018.

#### Employees by contract and gender

2018	Full time			Part time		
	Men	Women	Women %	Men	Women	Women %
Western Europe	16,708	3,050	15%	263	594	69%
Asia and Pacific	7,914	2,315	23%	41	24	37%
North America	4,423	1,393	24%	1	6	86%
Eastern and Central Europe	2,812	1,579	36%	1	4	80%
Latin America	2,307	510	18%	11	7	39%
Africa and Middle East	352	106	23%	4	4	50%
<b>Total</b>	<b>34,515</b>	<b>8,953</b>	<b>21%</b>	<b>321</b>	<b>639</b>	<b>67%</b>

Gender and contract data is extrapolated from different sources using percentage of full time and part time per gender from local HR systems and applying these percentages to the total headcount per geographic area.

### 102-09 Supply chain

SKF's downstream value chain serves some 40 different industries in 130 countries. To serve the diverse customer base in these markets in the best way, SKF owns and operates 94 manufacturing plants across the world. SKF directly employs over 27,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations. The purchased material consists of steel raw material such as bars, wires, tubes and strips, and steel based components such as rings, balls, rollers, and sheet metal parts, and other direct material as well as subcontracted

and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, and various types of services. To support SKF's global manufacturing footprint, SKF has sourcing offices around the world in Europe, China, India and in the Americas. About 85–90% of supplies to SKF factories come from local or regional suppliers. The total annual spend of the SKF Group is around SEK 40 billion and roughly around 1,200 suppliers make up 80% of the total spend by volume. Please refer to more information about SKF's supply chain in the section Purchasing on page 145.

#### **102-10 Significant changes to the organisation and its supply chain**

SKF divested its linear actuation business during the year. The units included in this part of the operations are not included in the specific disclosures.

#### **102-11 Precautionary principle or approach**

As required by the ICC Charter, see below, and referring to the Rio Declaration on Environment and Development, SKF applies a precautionary approach in its development work. Conservative assumptions are also used for any claims made by SKF regarding product or operational performance.

#### **102-12 External initiatives**

SKF endorses or subscribes to a number of internationally recognised principles, charters and guidelines which promote sustainable and ethical business practices. This helps to reflect and communicate the importance of SKF Care – the Group's framework for sustainability. The main ones are:

- The United Nations Global Compact which is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. SKF has participated in the Global Compact since 2006. SKF Annual Report is also the Group's Communication on progress for the principles of the Global Compact.

- The International Labour Organisation (ILO) which draws up and oversees international labour standards, bringing together representatives of governments, employers and workers to jointly shape policies and programmes promoting decent work for all.
- The International Chamber of Commerce (ICC) which is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity.
- The Organisation for Economic Co-operation and Development (OECD), which has the mission to promote policies that will improve the economic and social wellbeing of people around the world. SKF endorses and works to apply the OECD Guidelines for Multi-national Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognised standards.

#### **102-13 Membership of associations**

SKF is an active partner in several industry collaborations and initiatives. The Group holds dialogues with industrial peers on issues relating to technology and management across relevant short and long term aspects relating to financial, economic, governance, environmental and social dimensions. SKF takes part in the UN Global Compact, the World Bearing Association, Transparency International, Teknikföretagen, the Royal Swedish Academy of Engineering Sciences, the Swedish Life-cycle Centre and the International Standardisation Organisation among others. In addition, SKF collaborates with a number of internationally recognised universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy. A list of memberships is available at [skf.com/gri](http://skf.com/gri).

## Strategy

#### **102-14 Statement from senior decision-maker**

The President's letter is found on pages 6–8. Strategic priorities, trends, targets and achievements and outlook are described throughout the report.

#### **102-15 Key impacts, risks, and opportunities**

The United Nations Sustainable Development Goals help to highlight challenges and opportunities for business globally. External drivers and trends are further described on pages 14–17 and SKF's overall risk management approach is described on pages 58–61. With reference to the definitions in the overall risk management section, sustainability risks and opportunities can be related to strategic, operational, compliance and financial risks.

Corruption constitutes risks for SKF in terms of litigation, fines, bad-will, and loss of business. Furthermore, corruption constitutes a risk for the involved employee in terms of fines, imprisonment, health and safety. SKF's anti-corruption activities are risk based and include internal and third party risk assessments, internal financial controls and training of SKF and selected third party

employees. In addition, SKF has ethical requirements in contracts with suppliers, distributors and agents. If these requirements are not fulfilled, the relationship is terminated. The SKF Ethics and Compliance Reporting Line which can be used by SKF employees and others for reporting ethical concerns is an important part of the compliance program. Furthermore, SKF conducts audits and investigations on SKF units as well as on third parties using internal and external resources. SKF's commitment to fight corruption is also manifested through the membership in Transparency International Sweden's Corporate Supporters Forum.

On environmental topics, energy, emissions and resource use stands out as the most significant topics. They can be related to direct business risks and opportunities as SKF's solutions often create value for customers by helping them to improve resource and energy efficiency. SKF's customer solutions can provide significant environmental benefits regarding for example global warming and resource use. More on customer solutions can be found in the Creating and capturing customer value section on pages 21–23 and Application driven innovation on page 24.

The environmental risks directly related to SKF's manufacturing and supply chain are managed by group wide management systems and procedures to mitigate or reduce all relevant risks. At the same time, industries served by SKF are expected to experience transformations related to sustainability and digitalisation which can impact the demands for SKF services as both risks and opportunities.

Employee recruitment and development have gained increasing attention recently. As technology development accelerates across all sectors there is an increased demand among employers for similar types of competencies. The scarcity for new competencies can affect the way the company attracts, develops and engages critical competences and capabilities needed to deliver upon the Group's strategy.

Likewise, for the individual employee, it becomes ever more important to continuously develop. This risk is managed through continuous development of recruitment processes, competence development and employer branding activities.

In terms of human rights, SKF has worked for many years according to external principles and charters to integrate human rights risks in its policies and procedures. SKF works according to UN Guiding Principles of Business and Human Rights and reports its work on pages 143–145.

SKF has established Group targets for a number of relevant sustainability topics. Detailed results and governance mechanisms are presented in these statements on pages 128–146.

## Ethics

### 102-16 Values, principles, standards, and norms of behavior

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, on Group level and in local adaptations of the SKF management systems but the SKF Code of Conduct is the superior policy. All other policies are subordinate to it. It is available in 17 languages and publicly available on SKF.com/code.

## The SKF Group values

Empowerment • High ethics  
Openness • Teamwork

### 102-17 Mechanisms for advice and concerns about ethics

SKF employees are requested to report behavior that is not in line with SKF's Code of Conduct to their manager, local human resources or to other senior managers including the country management. Employees can also raise concerns or seek advice via the SKF Ethics and Compliance Reporting Line. The reporting line is hosted by a third part and reports can be made anonymously unless this is prohibited by local legislation.

During 2018, SKF made the SKF Ethics and Compliance Reporting Line available to external parties on SKF.com. SKF employees and others can report concerns in their own language via a designated web portal or by calling a local telephone number. SKF has a strict non-retaliation policy towards anyone raising concerns in good faith. During 2018, 305 concerns were reported to the central functions via the Ethics and Compliance Reporting line or via other channels. The major types of concerns reported were discrimination or harassment (23%) misconduct or inappropriate behaviour (18%), conflict of interest (9%), violation of Code of Conduct (8%) and fraud (6%). The majority of the confirmed cases related to harassment or discrimination have led to verbal or written warnings to the individuals involved, and a few cases have led to dismissal. In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management.

# 305

cases reported via the Group's  
whistle blowing system

## Governance

### 102-18 Governance structure

SKF Care defines the Group's approach to contribute to sustainable development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organisational structure with clear areas of responsibility and delegated authority for implementation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship. Refer to page 152 in the Corporate Governance Report.

### 102-19 Delegating authority

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. SKF is organised in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Units. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and Business Transformation and Group

People, Communication, Legal and Sustainability. In SKF, the implementation of sustainability programmes in the line organisation is driven by the respective SKF areas, their business units, or by country organisations with direction and coordination from formal cross-functional decision making bodies and working-groups such as:

- The Responsible Sourcing Committee, established to assure that SKF's Code of Conduct for Suppliers and Sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the code of conduct are identified at our suppliers.
- The EHS and Quality Board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 and associated policies and instructions and coordinates the deployment of the Group's related strategy.
- The Group Ethics and Compliance Committee, which oversees the risks and opportunities related to ethics and compliance areas of sustainability.

Authority and responsibility is further delegated to the country managers who are appointed by SKF's Group management. The country manager is typically the company manager in the largest SKF company in the country and is also the chairperson or board member in the other SKF companies in the country. Each country and company manager is responsible for their entity's performance including financial metrics, social impact, compliance and other topics as stated in the SKF Group Policy on Country Manager and Managing Director Roles and Responsibilities.

For certain specific sustainability topics, such as safety and health, environment, quality and Code of Conduct compliance, SKF uses a systematic and standardised approach which is embedded throughout the organisation and decision making processes. Group-wide management systems are used to support and drive continual improvement. SKF's quality management systems are certified to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). The SKF approach to environmental, health and safety management is based on a Group-wide certification to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management).

On the individual employee level, incentives are set following SKF's performance management process. In general, the Group sets the ambition and direction of the company and employees and managers then set their personal goals for the year, follow up achievements and discuss priorities. Specific, measurable, attainable, realistic and timely (SMART) goals are set between employees and their immediate managers, which form the basis for the annual performance review. This way, employees can influence their own work activities, performance behaviours and future compensation.

#### **102-20 Executive-level responsibility for economic, environmental, and social topics**

The Senior Vice President, Group People, Communication, Legal and Sustainability has the task to assure that the principles defined by SKF Care are addressed and integrated into all operations and activities throughout the Group. This means that sustainability

performance is the responsibility of the operational parts of the company and this shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management. This responsibility is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are implemented. Group Sustainability and Compliance is responsible for establishing policies, strategies and targets related to SKF's overall sustainability performance. These in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

#### **102-21 Consulting stakeholders on economic, environmental, and social topics**

The Annual General Meeting is the main function for direct consultation between stakeholders and the highest governance body on economic, environmental and social topics. SKF also announces points of contact in this report on page 164.

#### **102-22 Composition of the highest governance body and its committees**

Refer to pages 153–157 in the Corporate Governance Report.

#### **102-23 Chair of the highest governance body**

Refer to page 154 in the Corporate Governance Report.

#### **102-24 Nominating and selecting the highest governance body**

Refer to page 153 in the Corporate Governance Report.

#### **102-25 Conflicts of interest**

Refer to page 153 in the Corporate Governance Report.

#### **102-26 Role of highest governance body in setting purpose, values, and strategy**

With reference to the statements under 102-20, this authority is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are acted upon accordingly.

#### **102-32 Highest governance body's role in sustainability reporting**

SKF Annual Report 2018 includes SKF's Sustainability Report and is signed by all members of the Board.

#### **102-36 Process for determining remuneration**

The principles of remuneration for Group Management is submitted by the Remuneration Committee to the Board, which submits a proposal for such remuneration principles to the Annual General Meeting (AGM) for approval.

#### **102-37 Stakeholders' involvement in remuneration**

Operational stakeholder dialogue is delegated via SKF's Group Management. Stakeholder's views on topics, such as remuneration, are taken into account via the Annual General Meeting where proposals are sent out in advance.

## Stakeholder engagement

### 102-40 List of stakeholder groups

Feedback and input is sought from a wide range of stakeholders and in many different ways. Input from customers, investors and analysts, employees, unions and representatives from civil society is taken in both proactively and reactively via interviews, surveys, conferences, meetings and data analysis.

### 102-41 Collective bargaining agreements

SKF holds collective bargaining agreements in 20 countries (Argentina, Austria, Brazil, Bulgaria, China, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, South Korea, Sweden, the UK, Ukraine and USA). These countries make up over 95% of all blue-collar workers (around 27,000). If the workers at a site choose not to be unionised, or if there are restrictions to the independence of a trade union, the employees in the country are still covered by the SKF Framework Agreement and part of a collective bargaining group. In addition to the 20 countries above, SKF employed around 1,000 people in blue-collar roles in sales, logistics and manufacturing of which the biggest countries are, Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

95%

of all blue-collar workers  
hold collective  
bargaining agreements

### 102-42 Identifying and selecting stakeholders

Stakeholder groups are defined as entities or individuals who can be significantly affected by SKF's activities. The Group works in different ways to identify individuals with whom to engage and many times in the form of continual dialogues. Connected to sustainable development, the general rationale is that all these different stakeholders have specific concerns. There is usually a specific function within the Group that manages the direct dialogue, and identifying individuals from whom to seek feedback, as part of their specific tasks, such as Investor relations, PR and Media, Sales, Operations Development, etc.

### 102-43 Approach to stakeholder engagement

#### Customers

Customer input is sought and received via sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. SKF also collects key issues and concerns from customer surveys and assessments.

#### Investors and analysts

SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and media. Information is provided through various channels such as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. Capital market days are held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via discussions during investor meetings.

#### Employees and union organisations

SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. This is a form of social dialogue to make sure that the framework based on the SKF Code of Conduct is deployed across the Group. Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 152–161. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.

#### Civil society

The communities in which SKF operates are important stakeholders for the company and their input helps shape local SKF activities. Local SKF organisations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, other charity work and sponsoring and local network collaboration. Local media is also considered to represent civil society. Formal and informal networks are used to share experiences and ideas with other companies, topic experts and NGOs.

#### Suppliers

Suppliers input on material topics is managed via SKF's responsible sourcing programme. Local sourcing offices enable close communication on daily operations. On-site audits and training provide feedback to SKF on suppliers' performance related quality and sustainability as part of a total cost assessment of supplier development. The SKF Code of Conduct is the standard used during audits and screening. Issues related to these audits are the ones presented here.

### 102-44 Key topics and concerns raised

- Climate impact
- Conflict minerals
- Environmental compliance
- Human rights and labour rights (including health and safety)
- Corruption

- Climate impact and financial climate risk and opportunities management
- Human rights along the value chain (including health and safety)
- Cost competitiveness and operational efficiency
- Digitalisation, job development and manufacturing footprint

- Environment, health and safety
- Employment and competency development in relation to digital automation
- Diversity and working climate
- Leadership and change management

- Climate impact
- General responsible business conduct, tax transparency
- Connection between the Group's strategy and the Global Goals

- Employment procedures
- Health and safety
- Overtime
- Systematic environmental management

## Reporting practices

### 102-45 Entities included in the consolidated financial statements

See pages 114–116.

### 102-46 Defining report content and topic boundaries

SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance, based on the input provided to the Group as presented in the previous section. To do this, SKF applies reporting principles of stakeholder inclusiveness, sustainability context, materiality and completeness. As part of the report's content definition and the reflection of its materiality, topics and boundaries have been evaluated from internal and external stakeholder perspectives. The statements on pages 128–146 provide more detailed information in a systematic manner to ensure that information is easily found.

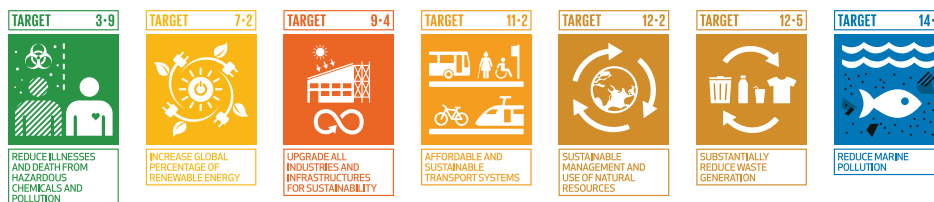
SKF defines its stakeholders as those who can be significantly affected by the Group's activities.

When approaching stakeholders proactively, the respondents are usually provided a short-list of potentially material topics. The stakeholders are asked to highlight the most significant topics for their assessments and decisions related to SKF. They are also asked to add additional issues or remove what they consider irrelevant. SKF uses this input together with risk assessments, product lifecycle assessments and general impact assessments to define the significant environmental, economic and social impacts.

In 2018, the Group attempted to gather materiality input based on the Global Goals and 169 targets. The approach was to distinguish what is relevant in three main phases of the value chain – SKF operations, its customer use phase and at its suppliers. In the first attempt, the main focus group was employees. The targets that was rated of highest importance or expectations are presented below.

#### Customer use phase

In the customer use phase, SKF employees consider resource efficiency, renewable energy and everything which can be done to increase safety, environmental and health performance of rotating equipment to be most important.



#### SKF operations

At SKF's own operations, decent work, equal opportunities, resource and water efficiency and anti-corruption are top rated by employees.



#### SKF's supply chain

SKF's employees think that in the supply chain, the Group should focus its activities on decent work, health safety and environmental stewardship.

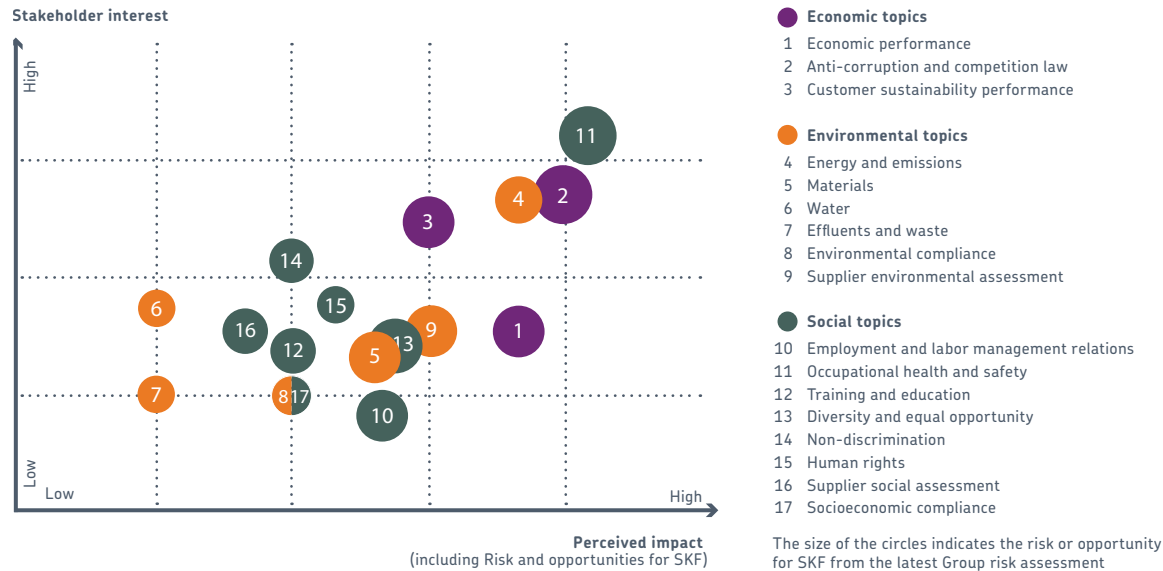


### 102-47 List of material topics

When combining the feedback above with previously collected input from other stakeholder groups as presented on page 125, the result is translated and presented in terms of GRI Standard topics. All these topics are considered material and relevant to report. As indicated on the next page, several topics at the top right of the matrix stick

out as highly material. The ambition however is not to provide an exact numeric score for each topic but instead provide an approximated rating.

The context, scope and boundaries of each topic are described further in the specific disclosures on pages 128–146 along with the management approach.



### Movement in the materiality matrix

Input provided to SKF in 2018 has been added to complement previously collected feedback. The main new input sought proactively in 2018 comes from SKF employees and unions. Other input has been gathered from customer and investor questionnaires and upon request to SKF centrally from e.g. media. The result of this has resulted in a few changes. Translated into GRI topics, the ones that moved the most are

- Energy and emissions remain high on the stakeholder agenda and gained importance on the impact perception.
- Supplier environmental assessment gained importance in terms of perceived impact.
- Diversity increases slightly in terms of perceived impact and stakeholder interest.
- Customer sustainability performance has been given its own topic.

### 102-48 Restatements of information

On page 135, SKF has restated the water consumption for 2017 and 2016. One large site had overreported its water use. The effect is that water use for 2017 was significantly lower than reported.

On page 133, the weight of sold bearings for 2015–2017 has been restated. Weight of sold bearings is used as a denominator for SKF's climate objectives (emission by tonne sold bearings). The reporting of this KPI is continually developing and as new entities are included in the scope, the historical data is restated to be comparable over time, both in terms of weight of sold products and for CO<sub>2</sub> emissions.

On page 133, The base line for emission from goods transportation has been restated to exclude express shipment. This is due to delay in the process of calculating the emissions from express freight. 2015–2017 express shipments made up <1% of shipped weight and 2–7% of goods transportation emissions.

### 102-49 Changes in reporting

SKF has adopted the new GRI Standard 403 – Occupational Health and Safety 2018. As this is the first year using this standard, a few more omissions are used where information is not yet available.

SKF has also created an own specific topic referred to as Customer sustainability performance. This topic will be gradually developed as SKF develops its method further to assess sustainability impact of its customer solutions.

### 102-50 Reporting period

1 January to 31 December 2018.

### 102-51 Date of most recent report

The report was published on 6 March 2019. The previous report was published on 5 March 2018.

### 102-52 Reporting cycle

Annual

### 102-53 Contact point for questions regarding the report

Please refer to page 164.

### 102-54 Claims of reporting in accordance with the GRI Standards

With reference to GRI Standards accordance criteria, the SKF Annual Report 2018 is self-declared as being in accordance with the Core option, which is confirmed by the Group's external auditors.

### 102-55 GRI content index

A complete GRI content index is available together with Topics related to the Annual Report on [skf.com/ar2018](http://skf.com/ar2018)

### 102-56 External assurance

To ensure SKF's stakeholders and readers of the Group's sustainability report are confident in the transparency, credibility and materiality of the information published, SKF has been submitting its sustainability reports for third-party review and verification since the year 2000.

Sustainability disclosures in the SKF Annual Report 2018 have been subject to limited assurance by SKF's auditors, please refer to auditor's limited assurance report on the Sustainability Report on page 147.



# SKF's material topics

## Economic Performance

### Material topic: GRI 201 – Economic Performance

#### 103-1 Materiality and boundaries

Economic performance is considered to be material for SKF Group and its subsidiaries. The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control.

#### 103-2–103-3 Management approach, its components and evaluation

SKF is a profit driven organisation. The financial performance is the overall indicator of the economic impact SKF has on society. All SKF entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS. Please refer to page 74 for more information about SKF's financial accounting policies.

#### 201-1 Direct economic value generated and distributed

The data from the financial statements has been used to break down economic value generated and distributed as described below.

Economic value generated and distributed, (MSEK)	2018	2017
Net sales	85,713	77,938
Revenue from financial investments and other operating income	1 594	156
<b>Economic value generated</b>	<b>87,307</b>	<b>78,094</b>
Operating costs	-51,796	-46,219
Employee wages and benefits	-24,724	-23,540
Economic value distributed to providers of capital	-3,331	-3,181
Economic value distributed to government (income taxes)	-2,603	-1,898
<b>Economic value distributed</b>	<b>-82,454</b>	<b>-74,838</b>
<b>Economic value retained</b>	<b>4,853</b>	<b>3,256</b>

**Economic value generated** includes net sales, see page 66, interest income, see page 81, and profit on sale of assets and businesses, net, see page 80.

**Operating costs** include the total operating expenses, see page 80, plus the net of other operating income and expenses, see page 80, plus financial net, see page 81, less employee wages and benefits, see page 80, less revenues from financial investments and other operating income, see page 80, less interest expenses, see page 81.

**Employee wages and benefits** includes costs related to wages and salaries including social charges, see page 80.

**Economic value distributed to providers of capital** includes suggested dividends to SKF's shareholders, see page 92 and interest expenses, see page 81.

**Economic value distributed to government** includes income taxes for Group, see page 66. For the actual payment of taxes during the year, see cash-flow analysis on page 70.

#### 201-2 Financial implications and other risks and opportunities for the organisation's activities due to climate change

SKF's business is diversified in terms of products, customers, geographic markets and industries. The Group usually divides its customer into some 40 different industries and SKF owns and operates around 90 manufacturing units in around 30 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change.

#### Business risks and opportunities

SKF sees it as a key element in its strategy to be able to identify industries that will benefit from new and tougher climate related regulations and changed customer preferences and needs. One example of this is SKF's early participation in the industrialisation of wind energy. Another example is SKF's close partnerships with automotive customers in the electrification and improvement of energy efficiency of the drivelines. Many industries, especially all those producing vehicles or input material to vehicles, will likely be subject to similar transformational changes. SKF is following this on industry as well as on customer level to develop new technologies for new demands. Due to the different position of SKF in the value chain and wide variety of business, scenario planning and estimated effects on the bottom line are not aggregated at Group level.

Please refer to pages 54–57 for an overview of SKF's business areas. Customer industries are further described on [skf.com/skfs-business](http://skf.com/skfs-business).

#### SKF operations

SKF has mapped all its manufacturing units from a physical climate risk perspective (risks of flooding and strong wind). Climate change effects are considered when deciding where to locate new SKF's manufacturing sites.

One of the most immediate and obvious financial risks related to climate change for SKF's value chain is an increased cost of energy. It is with high uncertainty how and where e.g. carbon taxation would be implemented, and SKF chooses to address this as an integrated risk of energy cost. The best way to mitigate this risk is to reduce the energy demand. In terms of spend, electricity makes up the absolute majority of energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. A 10% increase in costs related to energy would impact the Group's result by around SEK 130 million. For more on SKF's climate objectives, please refer to Energy and emissions on page 131.

### Supply chain

A general cost increase in energy would also impact the cost of raw materials and components purchased by SKF. Most direct materials used by SKF undergo several steps of refinements before procured by SKF. This makes SKF less sensitive to raw material cost fluctuations but has traditionally made SKF more sensitive to other operational costs at suppliers. Regardless, energy cost remains one major cost driver in the supply chain. SKF has established an objective for energy intensive major suppliers to implement the ISO 50001 energy management standard to mitigate cost risks and to reduce environmental impact.

SKF has also incorporated risk management in the purchasing strategies. One risk area is supply issues linked to natural disasters.

The risk mitigation actions will support suppliers to reduce potential impact of climate change, such as extreme weather events.

In general, the costs associated with actions to commercialise opportunities and to mitigate risks related to climate change are embedded in other costs, such as research and development, maintenance and investment budgets and cannot be reported separately.

### 201-3 Coverage of the organisation's defined benefit plan obligations

SKF reports extensively on the coverage of its provisions of post-employment benefits in the financial statements on pages 93–96.

## Anti-corruption and Anti-competitive behaviour

**Material topics: GRI 205 – Anti-corruption and GRI 206 – Anti-Competitive behavior**

### 103-1 Materiality and boundaries

SKF addresses corruption and competition law as part of the Group's ethics and compliance programme. SKF operates on several markets across the world where corruption indexes indicate high risks. SKF has over many years had a strong focus on business ethics in its corporate values and works continuously to institutionalise these. This work has led to an increased number of reported concerns and a willingness to discuss ethical dilemmas more openly. See page 60 and 122 for a general description of corruption risk in relation to other risks.

### 103-2 – 103-3 Management approach, its components and evaluation

SKF's ethics and compliance programme cover fraud, anti-trust, corruption, money laundering, data privacy, export control, environment, health, safety, responsible sourcing, and human rights. SKF has Group policies and instructions setting out the expectations on how to act. Processes, controls, guidelines, training and tools are integrated parts of the programme and are available for employees on the Groups internal webpages.

A Group ethics and compliance risk assessment is performed annually. All relevant internal stakeholders (SKF Group staff functions of Internal Audit, Human Resources, Environment, Health and Safety, Purchasing and Sustainability and Compliance) participates. As part of the assessment, activities to mitigate the identified risks are planned and prioritised. The plans are implemented and acted upon by the operational units.

During 2018, new mandatory anti-corruption and anti-fraud e-learning courses have been launched globally. SKF has also conducted a comprehensive anti-corruption effort related to SKF distributors working in regions with high corruption risks. The focus has been on sales to government and state-owned entities.

The efforts to increase the awareness and use of the SKF Ethics & Compliance Reporting Line has continued during the year. In line with expectations, ethical concerns reported through this channel have increased. Please refer to page 123 for an overview of cases reported.

### 205-1 Operations assessed for risks related to corruption

SKF conducts yearly assessments of its corruption risks globally. In addition, risk based ethics and compliance reviews are carried out. The main purpose of these reviews is to assist units in their work to identify and address each unit's specific ethics and compliance risks, including corruption. During 2018, 50 such reviews have been carried out around the world. SKF conducted three in-depth anti-corruption audits during the year in units with extra high corruption exposure. Sales of SKF products by distributors to state owned entities in countries with high corruption risk constitutes the most significant corruption risk related to SKF's business. During 2018, SKF has mapped all distributors with such exposure and actions to prevent or mitigate these risks are ongoing.

### 205-3 Confirmed incidents of corruption and actions taken

During 2018, 24 fraud and corruption incidents have been confirmed. As a result, 31 employees had to leave SKF. SKF also decided to terminate 15 distributors for their involvement in unethical business practices. The majority of the confirmed incidents occurred in China and India. The main reasons for this historically high number of confirmed incidents are an increase in the number and quality of received concerns related to fraud and corruption, and higher awareness internally of the fraud and corruption risks SKF and its distributors are exposed to. This has led to increased efforts in preventing and detecting fraud and corruption. SKF has also developed its detection methodology.

### 206-1 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices

For any ongoing investigations, please refer to Risk management on page 58.

## Customer sustainability performance

### 103-1 Materiality and boundaries

For many years, SKF has focused on the environmental benefits of customer solutions – including energy use, CO<sub>2</sub> emissions, noise levels, water use, etc. This work has built up knowledge around life-cycle management and e.g. how scope 4 emissions can be avoided. More than 60 solutions were assessed and promoted under the SKF BeyondZero concept as part of the climate objectives 2012-2016. Recent years' development with an increased understanding of the connection between economic, social and environmental risk and the launch of the SDGs from the United Nations has provided the SKF Group with the opportunity to collaborate more closely with customers to create and deliver ever more sustainable solutions. In doing so, the Group has carefully assessed the targets and activities proposed by the Agenda 2030 and mapped risks and opportunities related to both internal activities and the role of SKF in supporting customers with engineered solutions.

With SKF Care as the foundation and with the Global Goals as the opportunity map of the future, SKF has established two main ways it can have a positive impact:

1. The business we make – products, services and business models
2. The way we make the business – the way of running operations as a responsible business partner, employer, and corporate citizen

The section below will focus on the first category – the business the Group makes. This is the products, services and solutions from SKF.

### 103-2–103-3 Management approach, its components and evaluation

SKF is establishing additional actions the Group can take in collaboration with its customers to enable positive impact. These activities revolve around safety of machine operators, improvement of air quality, reducing water use, water treatment and other infrastructure and utilities, development of renewable energy, sustainable transport systems, increase life and resource utilisation, reducing chemicals and soil contamination. Building on the previous work to assess environmental impacts of products and services under the SKF BeyondZero concept, the Group now continues its efforts to improve and quantify other sustainability impacts of customer solutions. This work is in progress and it is clear that SKF customer solutions can provide positive impacts in relation to a majority of the SDGs.

To support this work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating sustainability performance.



### Examples of products and services developed with significant positive sustainability impact



**SKF Food Line ball bearing units –Blue Range** have been developed to offer a complete range of hygienic and high-performance bearing unit solutions for the most demanding food and beverage environments. Specially developed to help eliminate contaminants and to reduce the spread of bacteria, they provide a solution to many food safety issues.

Some of the sustainability benefits, which have been verified in customer

processes, shows that this design helps prevent water contamination and reduces up to 33% of the hot water otherwise used for cleaning excess grease in the process. It enables a longer operating life and is highly recyclable, improving resource efficiency – both in customer operations and over the life cycle of the product.



**SKF Remanufacturing** Remanufacturing is found in many SKF business models—usually in combination with condition monitoring and predictive maintenance. But increasingly also as a stand alone product. The remanufactured bearings and units from SKF function as new and are delivered to customers with the same warranty as new bearings. For the customer, this brings benefits such as

reduced lead times, lean operations and often lower costs. The remanufactured bearings cut emissions in the production phase by 60–80%, compared with a new bearing.

## Energy and emissions

**Material topics: GRI 302 – Energy and GRI 305 – Emissions**

### 103-1 Materiality and boundaries

Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy-efficient and carbon-efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. SKF focuses on four areas in the value chain to drive improvements regarding energy and emissions: raw material and components, SKF's own operations, goods transportation, and customer solutions. The areas are selected based on SKF's power to influence and the relevance in terms of impact from each area.

### 103-2–103-3 Management approach, its components and evaluation

The Group's climate objectives are described in brief on page 31. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO<sub>2</sub> emissions from manufacturing per tonne of sold products and
- 40% reduction of CO<sub>2</sub> emissions from goods transportation per tonne of shipped products to end customer.

The baseline year for these objectives is 2015 and scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015). In this statement, the management approach along the value chain and total energy and emissions are disclosed.



#### SKF's own operations

SKF used some 1,800 GWh of energy in its manufacturing operations 2018, which has resulted in around 500,000 tonnes of CO<sub>2</sub> emission. In addition to ISO 14001:2015 for environmental management, SKF has an energy management system globally certified according to ISO 50001:2018. The certificate covers around 50 more energy intensive operations making up about 80% of the Group's total energy use. SKF has a centralised function to manage strategic energy sourcing decisions for the Group, including cost effective reduction of carbon dioxide intensity.

SKF's management approach is decentralised to SKF's sites and integrated in the environmental management system.

Energy efficiency work at sites is often closely linked to local maintenance strategies.

During 2018 to increase focus and accelerate improvements in both energy and CO<sub>2</sub> performance, SKF developed a new Group wide energy target. This applies to all units within the scope of the ISO 50001 standard. This target requires an improvement in energy performance of 3% compared to Unit, Cluster, Area or Group energy base line. The base line is established using linear regression of the previous two years monthly energy use vs. value added (a measure of production activity which is known to correlate with energy demand). This KPI removes distortions, which impact more simplistic measurements of energy performance (such as production volume variations) and allows a focus on the real underlying energy performance. The KPI and target follow up will start in January 2019.



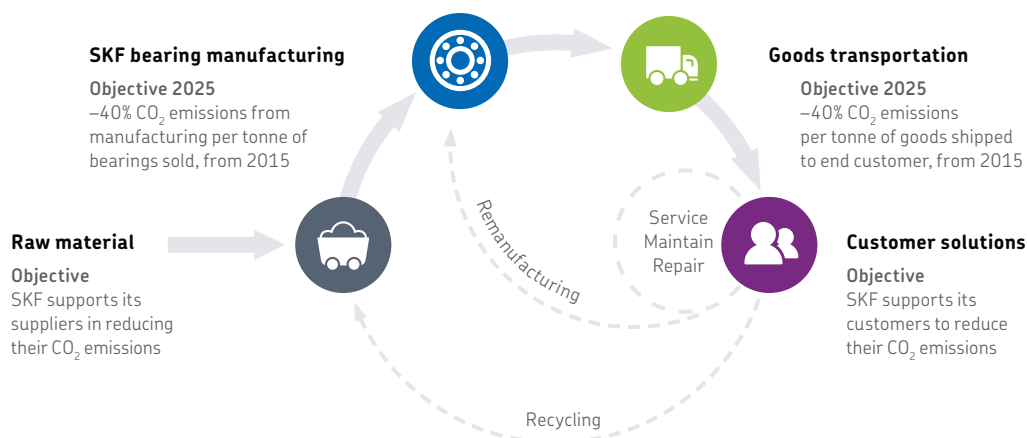
#### Goods transportation

SKF is directly managing the majority of goods transportation downstream and part of the transportation upstream. The Group works to reduce CO<sub>2</sub> emissions from transports in four main ways: optimise transport network and routing; use energy-efficient transport modes with low CO<sub>2</sub> intensity (e.g. ocean and rail instead of air where feasible); procure transport with high fuel efficiency and low-carbon fuels; and minimise mileage between suppliers, factories and end customers (i.e. optimise SKF's footprint). As of 2017, the Group changed efficiency measure to CO<sub>2</sub> emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.



#### Raw material and components

The emissions from raw material and components is about as much as those from SKF's own operations, with the important difference being that it is not in the Group's direct control. As a main mean of cutting cost and emissions from the supply chain, SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. This standardised way of managing energy and emissions is considered a pragmatic approach to cut emissions in the upstream value chain.





### Customer solutions

Life cycle studies confirm that the greatest potential for SKF to reduce environmental impact, lies in the customer use phase of the Group's products and solutions.

As reported on page 130, many of SKF's offerings can be strongly linked to sustainability needs alongside other business needs and in doing so, create value for customers, investors and society. Some are more specifically linked to mitigating climate change.

As part of SKF's climate objectives for 2025, yearly aggregated revenue data from the following key areas are tracked and reported: renewable energy generation, electric vehicles, recycling industry, and bearings remanufacturing. The total revenues of these areas amounted to almost SEK 4.1 billion in 2018.

### Lifecycle impact

In addition to cutting climate impact in the transactional value chain, SKF also works to develop new business models to reduce environmental impact alongside cost. First of all, the Group work to predict maintenance and enable cost effective repair and service at the customers' processes. Secondly, SKF brings back bearings and units for refurbishment or remanufacturing – a process which can cut energy and emissions by 60–80%, compared to the production of a new bearing.

### Data reporting according to the Greenhouse gas Protocol guidance

In these statements, all SKF's manufacturing sites, technical and engineering centres and logistics centres are included, also those outside the ISO 50001 scope. Joint ventures are included where SKF has management control. Energy data and related GHG emissions are reported monthly and followed up bi-annually by the SKF Group management.

SKF uses the Greenhouse gas (GHG) Protocol Corporate Guidance for reporting its emissions. Due to the nature of SKF's operations, only three greenhouse gases are likely to be released in significant quantities for tracking. These are carbon dioxide (CO<sub>2</sub>), methane and nitrous acid, where CO<sub>2</sub> is by far the biggest contributor to SKF's emissions. Scope 1 and 2 emissions are all reported in CO<sub>2</sub>-equivalents (CO<sub>2</sub>e), including the above mentioned other emissions. Refrigerants are currently not included in the GHG reporting scope as their impact on the overall carbon footprint is considered to be insignificant.

### 302-1 Energy consumption within the organisation

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with GHG protocol.

Source, GWh	2018	2017	2016
LPG	20	20	18
Natural gas	301	302	291
Fuel oil	10	9	10
Renewable energy generated on-site	21	4	3
District heating and cooling	138	144	144
Electricity	1,324	1,338	1,279
<b>Total energy use</b>	<b>1,814</b>	<b>1,817</b>	<b>1,745</b>

### 302-3 Energy intensity

This disclosure includes all energy generating scope 1 and scope 2 emissions for the SKF Group, and revenues in SEK billion for the SKF Group. In this disclosure, the comparison years have not been adjusted for acquisitions and divestments, as net sales is not.

GWh per SEK billion	2018	2017	2016
Total energy use (GWh)	1,814	1,817	1,745
Revenues, net sales (SEK billion)	85,713	77,938	72,589
<b>Energy intensity (GWh/SEK billion x 1,000)</b>	<b>21.14</b>	<b>23.31</b>	<b>24.04</b>

### 302-4 Reduction of energy consumption

Absolute energy use decreased marginally 2018 compared to 2017. At the same time, the production rate increased. The conclusion is that energy efficiency initiatives have paid off, at the same time as the production channels have been better utilised.

### 305-1 Direct (Scope 1) GHG emissions and

### 305-2 Energy indirect (Scope 2) GHG emissions

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with GHG protocol.

Market based emissions, tonnes	2018	2017	2016
<b>Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> e emissions scope 1,	62,034	62,269	59,982
<b>Energy indirect (Scope 2) GHG emissions</b>			
CO <sub>2</sub> e emissions Scope 2, Market based	432,427	544,923	528,037
<b>Total CO<sub>2</sub>e emissions, market based</b>	<b>494,461</b>	<b>607,192</b>	<b>588,019</b>

Location based, tonnes	2018	2017	2016
<b>Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> e emissions scope 1,	62,034	62,269	59,982
CO <sub>2</sub> e emissions Scope 2, Location based	580,209	605,771	576,851
<b>Total CO<sub>2</sub> emissions, location based</b>	<b>642,423</b>	<b>668,040</b>	<b>636,833</b>

### Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2018	2017	2016
<b>Direct (Scope 1)</b>			
LPG (3.0 per tonne)	4,180	4,318	3,914
Fuel oil (3.2 per tonne)	2,418	2,271	2,515
Natural gas (0.002 per cubic meter)	55,436	55,680	53,553
<b>Supplied (Scope 2), market based</b>			
Electricity	408,232	519,422	502,344
District heating and cooling	24,195	25,501	25,693
<b>Total CO<sub>2</sub>e emissions, market based</b>	<b>494,461</b>	<b>607,192</b>	<b>588,019</b>

Scope 1 emission factors have been gathered used from Folksam and Finanstidningens Environmental Index 2000. Scope 2 emission factors have been gathered from by SKF's contracts with electricity and district heating and cooling suppliers.

### 305-3 Other indirect (Scope 3) GHG emissions

Under scope 3 emissions, SKF reports CO<sub>2</sub> emissions from goods transportation and business travel, which is only a smaller part of the total scope 3 emissions. A significant part are related to raw material but these cannot be reported due to complexity of aggregating accurate data.

**Goods transportation data and related CO<sub>2</sub> emissions**

	2018	2017	2016	2015
CO <sub>2</sub> emissions from transport Scope 3, (tonnes)	122,448	107,997	96,439	106,112
Transport works (tonnes shipped)	437,245	358,683	367,149	350,046

**Shipped volumes and emissions per transport mode 2018**

	Road	Sea	Air
Transport works, tonnes shipped, % of total	76.8	22.5	0.7
CO <sub>2</sub> emissions, % of total	33.3	37.8	28.9

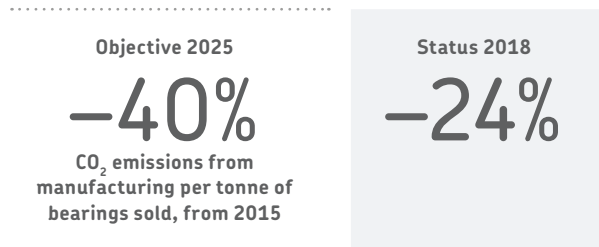
**Business travel**

SKF monitors CO<sub>2</sub> emissions from its air travel in Europe, the U.S. and China. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult. For 2018, SKF has used extrapolated data for the U.S. air travels based on the average emissions between 2006-2017, the figure for the U.S. amounts to 5,108 tonnes CO<sub>2</sub>.

	2018	2017	2016
CO <sub>2</sub> emissions from air travel (Scope 3)	23,897	21,612	20,604

**305-4 GHG emissions intensity**

SKF's bearing manufacturing

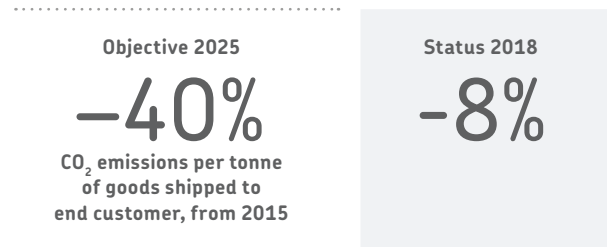


Intensity	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>
CO <sub>2</sub> -emissions – bearing & units factories (tonnes)	366,612	451,658	441,431	441,218
Weight bearings and units sold (tonnes)	457,086	441,396	431,564	418,108
GHG emissions intensity CO <sub>2</sub> -emissions/tonnes sold products	0.80	1.02	1.02	1.06
% change vs 2015	-24%	-3%	-3%	—

1) All data has been restated to reflect acquisitions and divestments.



Goods transportation



	2018	2017	2016	2015
GHG emissions intensity kg CO <sub>2</sub> emissions per tonnes shipped goods to end customer <sup>2)</sup>	280	301	263	303
% change vs 2015	-8	-1	-13	—

2) The baseline for emissions from goods transportation has been restated to exclude express shipment. This is considered a better improvement KPI as it excludes extremes over time. 2015-2017 express made up <1% of shipped weight and 2-7% of goods transportation emissions.

**305-5 Reduction of GHG emissions****Scope 1 and 2**

Absolute CO<sub>2</sub> emissions was significantly reduced during 2018 compared to baseline 2015. This is partly due to increased energy and overall efficiency, but mainly it is due to an increased percentage of renewable energy sourced in Germany and Italy, where the Group operates several energy intensive operations.

**Scope 3 Goods transportation**

For goods transportation, SKF's absolute emissions have increased by 15% since baseline 2015, this is explained by a significant increase in transport works (tonnes shipped increased by 25%). The relative emissions per tonnes shipped has been reduced by 8%, excluding express shipments. This efficiency gain is the result of shortening transport routes, higher fill rate and actively switching to more CO<sub>2</sub> efficient transport modes.

**Customer solutions and reduced climate impact**

As part of the Group's climate objectives, SKF provides yearly aggregated revenue data from four areas of its customer industries where SKF solutions are making a significant contribution in helping to mitigate climate change. These are: renewable energy generation, electric vehicles, recycling industry, bearings remanufacturing.

The total revenues of these areas amounted to SEK 4.1 billion in 2018.

SEK billion	2018	2017
Total revenues from renewable energy, electric vehicles, recycling industry and bearings remanufacturing.	4.1	4.5

Read more about customer sustainability performance on page 130.

## Materials, Water, Effluents and waste, Environmental compliance

**Material topics: GRI 301 – Material, GRI 303 – Water, GRI 306 – Effluents and waste, GRI 307 – Environmental compliance**

### 103-1 Materiality and boundaries

Details can differ between the environmental topics, but overall SKF has a similar management approach to Material, Water, Effluents and waste, and Environmental compliance. These topics are material first of all within SKF and its subsidiaries.

**Materials** The Group sourced about 535,000 tonnes of metal components in 2018. The main impact from this lies within the value chain and is associated to energy and emissions. The main way in which SKF can influence this is by focusing on material efficiency in the manufacturing processes. By avoiding wasted material at SKF – the waste associated with the embedded energy and emissions up-stream are also avoided.

**Water** is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity. Indirect water use is relevant due its close correlation to energy generation.

Downstream, SKF can provide solutions to reduce the water footprint for customers or help to make large scale water treatment viable and cost efficient.

**Effluents and wastes** are relevant from SKF's manufacturing operations.

**Compliance** is followed up in relation to SKF's manufacturing operations and those of its suppliers.

### 103-2–103-3 Management approach, its components and evaluation (combined)

SKF has deployed an environmental management system certified according to ISO 14001:2015. This is integrated with the health and safety management system and is based on the Group EHS Policy. The management system is further defined at Group, country and site level. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. New or recently acquired subsidiaries are provided a time frame for inclusion. This is typically one to two years but can be extended if the company acquired is of significant size and or complexity. The overall coordination of the work is managed by a central staff function and the responsibility to drive improvements is with SKF's functional areas in the line organisation.

SKF assures that environmental matters are prioritised through the line organisation by integrating environmental performance delivery into the responsibilities of the factory manager, the cluster or Business Unit Manager and up through to Business Area and Group. Local support, competence (particularly for legal compliance) and coordination for the units is provided by the EHS country coordinators.

Potential spills, incidents and fines are publicly reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to [skf.com/ar2018](http://skf.com/ar2018).

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits. Environmental performance at suppliers is further reported on page 146.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant with local rules and legislation, to ensure efficient water use and responsible water management, including wastewater handling.

SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption. The most important dimension of water for SKF is the water needed to generate energy for use over the value chain.

During 2017 and 2018, and based on an impact analysis at a Group level, SKF has developed new KPIs to measure and drive a reduced environmental impact. The Group has started to report according to the new parameters in 2018. It has been possible to define specific objectives for some of these KPI's, however others are based on parameters not previously followed up and so the Group will need to monitor and establish a base line for these during 2019 before defining specific objectives. The KPI's where objectives are defined are:

- Eliminate solvents (emitting volatile organic compounds) from all washing processes by 2025.
- Reach and maintain a recycling rate of grinding swarf at 80%.
- Water use targets are established at SKF sites with significant water risks. In 2018, SKF had twelve such sites.

KPI's where specific objectives are to be defined during 2019 cover the following aspects;

- Waste recycling excluding direct material waste
- Waste recycling including direct material waste
- Waste water treatment

### Data collection

All data was compiled either quarterly or annually, using the Group's main reporting and consolidation tool. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control. Data from sites can be included in the compilation even if the site is not yet fully integrated in the management systems. Information is reported at a local operating unit level, aggregated to site, country/area, and Group level. For site by site data, please refer to the Environmental performance data available at [skf.com/ar2018](http://skf.com/ar2018).

### Performance

SKF has set realistic and ambitious targets to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations.

### Restatement and changes in reporting

SKF has during 2018 updated many of the environmental parameter and KPIs in the Group's management system. This mean that several fractions cannot be reported for 2017 and or 2016.

Water use has been restated for 2017 and 2016 due to a significant reporting error at one site.

### 301-1 Materials used by weight or volume

SKF uses various materials such as metals, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF and much of the steel purchased by the Group is produced by re-melting steel scrap, as this provides favourable material properties and is widely available.

SKF does not report any renewable materials or recycled input material. The most significant part of the material used comes from components which have been machined and refined along the value chain. This means that SKF does not have direct influence over the source of the material but only the specified quality. In general, bearing steel is made out of a significant proportion of scrap steel, however an exact percentage cannot be provided.

#### Non-renewable material

Tonnes	2018	2017	2016
Metal as raw material from external suppliers	535,547	591,138	477,131
Rubber as raw material from external suppliers	4,762	5,616	5,505
Oils	9,196	8,920	6,808
Greases	2,525	2,651	2,003

#### Group target – Eliminate solvent (volatile organic compounds) from all washing processes by 2025

SKF halved its use of solvent between 2007 and 2016. Thereafter, newly acquired businesses resulted in an increase. In 2018, SKF has set a target to eliminate the use of solvent in washing processes, which is the main way volatile organic compounds are emitted from the Group operations. Work is ongoing to be able to report on this target from 2019 and onwards.

### 303-1 Water withdrawal by source

As the clear majority of SKF's factories are located in industrial zones, water is supplied by municipalities. Other sources have not been considered material. Therefore, SKF monitors total water consumption at operating units and not per withdrawal by source. As the reporting is based on actual measurements from water suppliers or at SKF sites, no specific assumptions are referred to.

Water use targets are established at SKF sites with significant water risks. In 2018, SKF had twelve such sites.

Water (1,000 N cubic meters)	2018	2017	2016
Water from municipal supply	2,155		
Water use from other source	997		
Water withdrawal total <sup>1)</sup>	3,152	3,336	3,904

1) First year of reporting this way, previous years only total use was available. 2017 and 2016 is restated after significant reporting error was found.

### 306-2 Waste by type and disposal method

During 2017 and 2018, SKF has updated its environmental KPIs which is reflected in this report. The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. A new KPI has been established where the Group shall move upwards in the waste hierarchy with the ultimate goal to reach zero waste. The exact level and target date will be established in 2019, after the first year of reporting the current state.

The amounts of residual material and recycling rate are disclosed below and in more detail in Environmental data spreadsheet available at [skf.com/ar2018](http://skf.com/ar2018). SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill.

Non-hazardous waste	2018	2017 <sup>2)</sup>	2016 <sup>2)</sup>
Total residuals generated (tonnes)	496,825	n/a	n/a
Recycled or reused (tonnes)	481,877	n/a	n/a
Recycling rate (%)	97%	n/a	n/a
Incinerated with energy recovery (tonnes)	4,839	n/a	n/a
Incinerated without energy recovery (tonnes)	877	n/a	n/a
Landfill, excl grinding swarf (tonnes)	9,231	n/a	n/a

2) 2018 is first year of reporting according to these fractions.

The overall recycling rate was close to 100%. This was according to expectations as metal residuals make up a significant proportion of the weight. In SKF internal improvement KPI, metal residuals from production may be excluded be able to more closely follow improvement in waste hierarchy. More details of this work will be reported next year.

### Group target – 80% recycling of grinding swarf

On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles mixed with emulsion. The Group has set a target to reach and maintain 80% recycling, which was actually achieved the first time 2015. SKF continues to depend greatly on variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target.

SKF is constantly working to find business partners who are able to use grinding swarf as input to their production, both as direct and indirect material. In 2018, the rate of recycled or reused grinding swarf increased somewhat to 72%.

Hazardous waste, grinding swarf	2018	2017	2016
Grinding swarf generated (tonnes)	24,051	22,839	20,522
Recycled or reused (tonnes)	17,420	15,400	15,597
Recycling rate (%)	72%	67%	76%
Incinerated, heat recovery (tonnes) <sup>2)</sup>	1,235	n/a	n/a
Incinerated, no recovery (tonnes) <sup>2)</sup>	1,222	n/a	n/a
Landfill <sup>2)</sup>	4,173	n/a	n/a

2) 2018 is the first year of reporting according to these fractions.

### 307-1 Non-compliance with environmental laws and regulations

SKF received no significant fines or directives from the environmental authorities in 2018. One less significant spill was recorded. This has been communicated and resolved with local environmental authorities.



## Employment

### Material topic: GRI 401 – Employment

#### 103-1 Materiality and boundaries

As an employer, SKF needs to attract and develop a diverse and effective workforce to lead and deliver on the objectives as set out by the Group. The work focuses on the Group and its subsidiaries where SKF works with central recruitment processes, training, leadership and talent management to proactively manage succession planning.

#### 103-2–103-3 Management approach, its components and evaluation

SKF's human resources function (Group People) is integrated in the Group People, Communication, Legal and Sustainability organisation. There are specific Human Resources personnel and responsibilities at Group, area, country and site level. Group People works to ensure that the company has the right people, in the right place at the right time and that these people are competent, motivated and able to create and capture value for our customers. Group People manages labour affairs and the formal dialogue with the SKF World Union Council, and the global framework agreement with the World Union Council which is based on the SKF Code of Conduct. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local union and the World Union Council. As the SKF Group operates under Swedish legislation and the Swedish Corporate Governance Code, employee representatives are part of the Board. Among other things, this means that

employee representatives from white- and blue-collar unions have direct insight on board level issues and the strategic outlook for the Group.

SKF's operations are diverse both in terms of industries and geographies served. This is reflected in traditionally decentralised human capital development and planning. However, digitalisation of operations and business has increased the need for a more centralised approach to workforce planning and strategy. Processes included in such centralisation include higher management succession planning, recruitment, talent management, leadership and learning (read more on page 140). New common systems are being put place to facilitate this work. As these common systems are not yet fully operational across the Group, SKF cannot report retention rate and turnover by age Group but only by gender and region.

The top risks for SKF when it comes to talent attraction have been identified as matching future needs of the Group to the regional and local availability of right skills. As society and industry is digitalised, more organisations are looking for the same skills. From exit interviews and focus groups, SKF has established a better understanding of why employees choose to stay or leave the Group and, from this, adapts its management approach. Some of the strengths have been identified as clarity of purpose, ethics and environmental responsibility, while some of the gaps are related to leadership, and lack of opportunities to progress in the career beyond a certain level. These insights set the agenda for SKF's employment expertise work in the years to come. In 2018, SKF has increased focus on internal mobility and job rotation.

#### 401-1 New employee hires and employee turnover

##### Employee retention rate by region (excluding lay-offs)

%	2018			2017	2016
	Women	Men	Total		
Asia and Pacific	84.5	89.8	88.6	88	92
Middle East and Africa	86.8	91.3	90.3	90	93
North America	91.4	91.3	91.3	91	92
Latin America	93.1	93.6	93.5	93	95
Eastern and Central Europe	92.4	91.3	91.7	90	90
Western Europe	95.9	96.4	96.3	96	96
<b>Group</b>	<b>91.5</b>	<b>93.5</b>	<b>93.1</b>	<b>93</b>	<b>93</b>

Retention rate as reported above is measured by comparing remaining SKF employees at year end (minus newly employed) to the number at the start of the year. Lay-offs are excluded in the calculation.

**Employee turnover by region**

%	2018			2017	2016
	Women	Men	Total		
Asia and Pacific	18.2	11.9	13.4	13.4	9.3
Middle East and Africa	14.8	11.9	12.6	11.1	8.2
North America	16.6	16.8	16.7	17.5	14.5
Latin America	13.3	14.4	14.2	19.5	17.2
Eastern and Central Europe	8.4	10.7	9.9	11.1	9.7
Western Europe	5.6	4.7	4.9	4.7	5.6
<b>Group</b>	<b>11.6</b>	<b>9.5</b>	<b>9.9</b>	<b>10.3</b>	<b>9.1</b>

**New hires by region**

Total number	2018			Women as share of total, %
	Women	Men	Total	
Asia and Pacific	444	1,176	1,620	27%
Middle East and Africa	21	42	63	33%
North America	207	614	821	25%
Latin America	212	631	843	25%
Eastern and Central Europe	119	280	399	30%
Western Europe	199	856	1,055	19%
<b>Group</b>	<b>1,202</b>	<b>3,599</b>	<b>4,801</b>	<b>25%</b>

**Labour management relations****Material topic: GRI 402 – Labour management relations****103-1 Materiality and boundaries**

The main priority of the relationship between labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice. This is based on the SKF Code of Conduct and the work focuses on labour management relations between SKF Group and workers within SKF Group and its subsidiaries. SKF also collaborates with other companies in formal and informal networks.

**103-2–103-3 Management approach, its components and evaluation**

Issues relating to significant changes at SKF, for example in acquiring, divesting or consolidating operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council. The precise approach must be adapted to the specific conditions of each occasion. SKF makes it clear in its Code of Conduct that all employees have the right to join a union and to bargain collectively. Continual dialogue is on-going to ensure that it works for both SKF, and the union members.

The Council, which includes all 20 countries referred to on page 124–125, meets every year to discuss labour issues in an open format and to share what is currently happening in the Group. All countries with major operations have the right to send union officials or observers to the SKF World Union Council. In 2018, the Council was held in Italy in September. The focus areas were, employment, environment, health and safety, and digitalisation. Overall, SKF's setup with the World Union Council is seen as a great competitive advantage for addressing and deploying global initiatives.

**402-1 Minimum notice periods regarding operational changes**

SKF does not state a specific minimum notice period as the Group cannot overrule the centrally agreed collective bargain agreements in the countries SKF operates in. SKF holds consultations and provides information to relevant parties, which are two separate procedures. Notice regarding operational changes is always defined on a case-by-case basis but always with the local unions involved, and/or reviewed at the World Works Council. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

## Occupational health and safety

**Material topic: GRI 403 – Occupational health and safety**

### 103-1 Materiality and boundaries

Health and safety is a material issue in different aspects of SKF's direct operations as well as activities occurring along the value chain. SKF employs around 27,000 people in blue-collar work roles and the focus here is primarily on physical health and safety. This is also relevant for suppliers and is addressed as part of SKF's responsible sourcing approach, see page 143. However, traditional office tasks are increasing and thus psychological health and well-being are increasingly material.

### 103-2–103-3 Management approach, its components and evaluation

SKF's accident rate has steadily improved over the last two decades but the rate of improvement has slowed down in recent years. In 2018, the accident rate was 0.81 per 200,000 worked hours. SKF strives to achieve further reductions in the accident rate by increasing the effectiveness of its management approach towards health and safety in various ways.

During 2018 a major reorganisation of overall EHS (Environment, Health and Safety) governance in SKF has taken place with the primary objective to improve health and safety (and environmental) performance. The change has reinforced the line ownership for H&S by appointing EHS managers in the manufacturing clusters, business units and their equivalent management teams across SKF.

Working as part of the operational management teams, these individuals will make sure that appropriate attention, resources and investments are given H&S in their respective units. They will be supported in this work by the long established EHS country coordinators – who will provide local competence, guidance and support to the units.

### 403-1 Occupational health and safety management system

SKF has established and deployed a Group-wide health and safety management system according to the OHSAS 18001 management standard. High-level requirements on health and safety are defined in the Group's EHS policy and detailed instructions and procedures are integrated within the environment, health and safety management system at Group, country and site level. The system drives compliance with legal requirements and those defined by the Group, its customers and other stakeholders. The system also provides a framework to drive continuous improvement in health and safety performance.

The scope of the management system includes physical and psychological health and safety. It covers all employees at SKF sites, in commute or working for SKF off-site, such as maintenance engineers at a customer to SKF, please refer to disclosure 403-8.

### 403-2 Hazard identification, risk assessment, and incident investigation

SKF and its subsidiaries apply tools and processes as prescribed in the management system and according to legal requirements to prevent accidents and ill-health. Risk assessments are carried out on a regular basis at all levels from shop floor to office. The quality of risk assessments is assured by training of EHS and other persons undertaking them. Risk assessments are a focus during internal audits and external audits, where typically a sample of risk assessments, corrective and preventative actions are reviewed.

Measures to mitigate or eliminate the identified risks are defined and implemented and risk assessments are reviewed and updated periodically or after any incident has occurred. Recordable accidents are reported and followed up both at the unit level and further up in the organisation right up to Group level.

Thorough investigations, which result in effective corrective and preventative actions must be deployed after each recordable accident. In cases where the issue is linked to risks which may be relevant for other units – the causes of the accident and the corrective and preventative measure to avoid a repeat are shared with other relevant units. In certain cases, changes may be needed in the Group level management system as part of a preventative measure.

All employees are required to report accidents, incidents and unsafe conditions – as they are a vital source of improvements and indicate opportunities to better control the associated risk. The SKF code of conduct and related processes make it clear that any management reprisals against individuals making such reports are strictly forbidden. In the unlikely event that a manager acts against the Code of Conduct – the SKF Ethics and compliance reporting line can be used to escalated this. Risks reported must be addressed at the local level but are not required to be reported in detail further up in the organisation – only the total number of such cases should be reported for the unit as this gives an indication of the level of safety related activity. No distinction is made between SKF employees, agency workers or other persons on site for the identification and control of risk.

SKF employs health and safety coordinators with expertise to support team leaders and managers at all levels in the organisation. Periodic training is also organised on health and safety procedures, roles and responsibilities for factory managers and health and safety coordinators as part of the SKF Improvement Academy and The SKF Manufacturing Academy.

Based on the risk assessment carried out for a specific machine, process or role, employees receive training so that they understand the risks and how to manage them – through following defined procedures or wearing personal protective equipment for example. Any employees who intentionally ignore the defined safety rules will face disciplinary measures in order to protect themselves and their colleagues from unsafe behaviours.

When defining corrective or preventative actions in response to identified risk, SKF's management system requires that the hierarchy of control measures principles be applied. First option is hazard elimination if this is not possible then substitution, engineering controls, administrative controls and finally personal protective equipment.

SKF's Group policies on environment, health, safety and quality are distributed and highly visible on the walls of every factory and office within the SKF Group. The policy makes it clear that the company never expects any employee to work unprotected in an unsafe environment.

### 403-3 Occupational health services

Occupational health services are provided to workers at most units and vary from one country to another (depending on the need of the unit, the level of health service provided externally etc.). SKF cannot report exactly how the quality of such health services is evaluated and ensured. Services are generally supplied by third parties who ensure data privacy in accordance with applicable regulations.

#### 403-4 Worker participation, consultation, and communication on occupational health and safety

Worker representatives are appointed to the health and safety committees by the employees using a voting system in line with SKF World Union Council processes. SKF health and safety committees operate on factory or unit management level with the objective to bring together worker and management representatives in order to discuss and agree on needed measures to improve the health and safety performance at the factory or unit. The committees meet at least once per quarter and decisions taken shall be communicated to the workforce and acted upon and followed up. The committees are often involved in accident and incident investigations and may define additional corrective or preventative measures based on this.

#### 403-5 Worker training on occupational health and safety

All employees, and agency workers, are provided health and safety training as well as other code of conduct training as part of induction training. More specific training is provided depending on the job description. Specific training for potentially hazardous jobs – such as working with electricity, at heights, hot work and so on is mandatory for employees working with these aspects. SKF also provided general health and safety training via mandatory e-learning. All trainings are provided during work hours. The efficiency is assessed based on accident rates in combination with severity rated which are expected to be reduced over time towards zero.

#### 403-6 Promotion of worker health

The SKF Group has for a long time provided various health promoting activities beyond occupational safety. Close to 95% of employees are covered by health promoting programmes including HIV/AIDS prevention, substance abuse, obesity, healthy life style, and stress management. Increasingly these programmes or initiatives take a more holistic approach to health and in 2018 SKF formalised this process further by issuing the SKF Group Employee Well-Being policy. This is focused on three areas: psychological work safety, life-balance and healthy life choices. The confidentiality of individuals is protected in line with general data privacy laws.

#### 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships

As part of the SKF Code of Conduct for suppliers and sub-contractors, the Group perform on-site audits on a wide variety of sustainability topics. Health and safety are central elements of these follow-ups with suppliers. Read more about this on pages 145–146 – Supplier social assessments.

SKF's employees also work at customers' sites, at suppliers or other locations outside SKF premises. As part of the process of defining such off-site activities, SKF assess health and safety risks. Occasionally, risks not previously identified by the customer or supplier are found and in such cases control measures must be agreed before work commences.

Occupational safety is also a central element in courses held by SKF for customers on mounting and dismounting bearings.

#### 403-8 Workers covered by an occupational health and safety management system

Over 86%, or some 38,000 employees are covered by the certified part of the health and safety management system. The system focuses on the manufacturing sites, workshops, logistics- and technical centres. In addition, 83%, around 3,000 consultants or agency workers under SKF's management control are also covered

by the management system. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a period before being included in the scope of SKF certification of management systems. All units are subject to internal audit every one to three years.

The data has been collected from SKF financial reporting system using headcount data for sites and units included in the Groups OHSAS 18001 certification and accidents reporting is divided by the total headcount, including agency workers and consultants.

SKF is globally certified according to OHSAS 18001, ISO 14001, ISO 9001 and ISO 50001. SKF engages a qualified third party audit company to audit for compliance to these management standards at Group and unit level. In addition to these external audits, a number of SKF employees are qualified as Group internal auditors and these individuals also audit units to assure compliance with the standards, the environment, health and safety policy and related Group instructions and requirements. Read more on the certification on [skf.com/18001](http://skf.com/18001).

#### 403-9 Work-related injuries

SKF does not separately report accidents on workers who are not employees, but includes them in the total figures reported below.

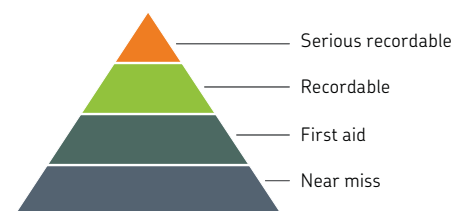
Health and safety data is collected on a quarterly basis using the Group's main reporting and consolidation tool.

The accident rate is calculated with  $R \times 200,000/h$ , where  
 $R$  = number of recordable accidents and  
 $h$  = total hours worked at the site/unit

	2018	2017	2016	2015	2014	2013	2012	2011
Accident rate for the Group	0.81	0.85	0.87	0.99	1.13	0.99	1.06	1.05
Rate of high consequence work related injuries	0.013	0.013						

	2018	2017
Work related fatalities	0	0
High consequence work accidents	5	5
Recordable accidents	319	324
First aid incidents	2,920	3,054
Near miss incidents	5,731	5,135
Worked hours (x 200,000)	398	390

On many units, near miss and first aid incidents occur but are still unrecorded. The ambition with the pyramid is that an increasing attention to near miss incidents reported, the better the risk mitigation becomes, which would result in a reduced number of recordable and serious accidents.



## Training and Education

### Material topic: GRI 404 – Training and Education

#### 103-1 Materiality and boundaries

SKF's history of success has been dependent on the collective skills and experiences of our people. With digitalisation, globalisation and new technologies come new opportunities to deliver sustainable offerings to our customers and to enhance production processes and ways of working. These opportunities create both challenges and possibilities for SKF employees to develop new competences that are of value to them as individuals, to SKF and to customers. SKF has a wide range of competence development activities available such as trainings, educational programs and an increasingly amount of performance support opportunities aimed at the Group's employees, distributors and customers. Closely connected to social impact is employee development.

#### 103-2–103-3 Management approach, its components and evaluation

Learning and development must happen continuously in the company for SKF to be competitive in the market. The employees' own commitment and motivation for competence development are key elements to keep skills and experiences updated. This is why all employees can propose their own main competence development activities in e.g. an individual development plan (IDP).

The IDP consists of both generic and specific training or development activities agreed between the employee and her/his manager. The IDP is also used to follow up the completion of training and development activities. Training defined within a plan can range from job rotation, shadowing and mentoring, to specific technical training on a wide range of subjects such as project management, quality or application engineering. SKF also develops short videos and e-learning to provide cost effective training to enable communication and learning. Managers involvement and support are an important aspect for employees to achieve sustained personal and professional growth and for inspiring employees to take advantage and responsibility of the learning opportunities available.

Effective competence development is increasingly important for SKF to succeed in the competitive market. The SKF Academy functions coordinates the overall strategy, methods and tools for enhanced learning in SKF. The Group's human resources function strive to ensure that competence development activities are designed and implemented to support the strategic business agenda.

Major recent initiatives include the REP business offer-programs targeting specific customer segments to transform the sales force from transactional sales into selling a function or value based service. Other examples are the Sales excellence for application engineers, Business acumen programs in Latin America, Factory manager executive program and different Industry 4.0-related initiatives. Local centres of learning and learning experts are in place in the main SKF operations to support implementation and local adaptation of SKF's global curriculum as well as to drive development programmes and initiatives meeting local needs.

Utilising the joint knowledge and resources of the central human resources function, SKF Academies and local learning experts, SKF has a solid foundation for development and implementation of effective competence enhancing activities. Tools and methods such as web-conferencing, e-learning, SKF's social media platforms and collaborative communities are supporting these efforts.

#### 404-2 Programmes for upgrading employee skills and transition assistance programmes

SKF offers internal programmes and funding for external education. The exact approach differs from country to country. In several entities, employees can seek scholarships from employee development foundations. These are usually open for all employees and, at times, also to children of employees. Training and skill upgrading are also done at varying depth or degrees in different parts of the organisation.

In collaboration with the SKF World Union Council, the Group identified needs to re-skill people as part of meeting the demands of new digital technologies and new ways of doing business. Initiatives include re-skilling from production execution to maintenance by offering theoretical and practical education in electronics and mechanics, upskilling in automation technology, robotics and simulations as well as possibilities to combine work with part-time university studies in production development. At SKF in Cassino, Italy, SKF has implemented a pilot for digitalised manufacturing for ball bearings. Related to this, the factory has implemented a Digital Twin Training Package with specific training for operators, specialists, maintenance teams and management.

In Sweden, one recent re-skilling initiative is the Industry Knowledge Validation program, where employees in production and logistics are offered e-learning based training to upgrade their skills in ten knowledge areas. Upon successful completion, the certificate validates some important competences, equaling knowledge level of three year industrial high school. So far, some 150 employees have successfully passed the validation.

SKF is also offering the possibility of transition assistance to the external market through coaching support for employees that find new internal demands difficult and would like to explore professions not available at SKF

#### 404-3 Percentage of employees receiving regular performance and career development reviews

Managers in SKF are accountable to work with their teams to define individual and team performance goals, so that employees have a clear understanding how they contribute to the overall SKF strategy. The process is supported by a global platform, aiming to have documented digitalised information. However due to local work laws, there are locations where the process is still run in other formats.

The performance management process is flexible so that managers and their teams can review and update progress and priorities throughout the year, according to business needs. The overall performance rating is defined during the performance review meeting and is used as input for the salary review process and for the talent management process.

SKF employees are encouraged to take ownership of their own competence and career progress and development. Their managers are expected to support for employees' development. Career conversations are encouraged to take place at any time, though the company encourage the review of the IDP during the performance review meeting.

As part of the ambition to keep a motivated and competent workforce, SKF has, during the year created a job rotation centre operating at Group level and implemented talent reviews using a global platform. Here, employees can add their CV and express their career aspirations. The aim with these initiatives is to improve the quality of career discussions and to stimulate even more the internal talent flow and career development within the company.

The scope of this survey covers around 16,000 staff workers included in the people and learning management system (LMS). In 2018, the scope of the users of this system expanded from 13,000 to around 16,000.

%	2018		2017	
	Women	Men	Women	Men
% of LMS users with documented performance reviews	86	86	94	96
	2018		2017	
% of assigned LMS users with active individual development plans <sup>1)</sup>		65		58

1) Individual development plans can only be reported as a total for white-collar workers and not by gender or category.

## Diversity and Equal Opportunity

### Material topic: GRI 405 Diversity and Equal Opportunity

#### 103-1 Materiality and boundaries

Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. It is crucial for SKF that all employees compete on the same level in order to attract the most suitable people to drive its business in the best possible way. In the ever-increasing competition for talent, SKF cannot afford to attract only a certain type of people. The Code of Conduct was therefore the starting point stipulating the importance of encouraging diversity as a means to gaining competitive advantage.

#### 103-2–103-3 Management approach, its components and evaluation

According to the International Labour Organisation (ILO), the global pay gap is estimated at over 20% and is one of the main challenges for freedom and equality for society. SKF's overall approach is to start with equality, and make sure that everyone in SKF has a fair chance to develop, compete for jobs and that competition should be based on professionalism. The Group works to integrate equality in relevant processes, such as learning, succession planning and recruitment. SKF's recruitment principles are based on the SKF Code of Conduct and facilitates recruitment based on skills and knowledge.

SKF has a slightly higher turnover on women than that of men. In 2018, 25% of the new employees were women, which is higher than the total share of women today (21%). However, since the turnover rate for women are higher, SKF still stands still on total Group level. While around 1,200 of the newly hired were women, over 1,100 women also left the company. This trend is also evident at higher level management, even though women in junior management positions and local management teams have slowly increased

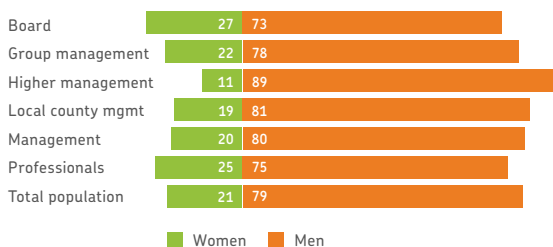
over time. One of the main challenges is to first of all attract more women into SKF and to simultaneously balance the ratio of women and men at senior management level.

This challenge is widely acknowledged within SKF and the Group's subsidiaries are encouraged to attract more diverse teams. The development of tasks in the workplace and new business models based on data analytics, software development, digitalisation of manufacturing and preventative maintenance is expected to result in a need for new competencies. Ability to attract diversity for such workforce is of outermost importance. This transformation of work can also help the SKF Group to provide new and more diverse tasks which is expected to also facilitate attraction of a more diverse workforce.

#### 405-1 Diversity of governance bodies and employees

The table provides % of women and men at different job categories within the organisation.

##### Gender diversity, %



##### The Board of Directors

Please refer to page 156.

##### Group Management

Please refer to page 161.

##### Higher management

Around top 500 managers in the SKF Group.

The actual number in this population changes over time.

##### Local management teams

Around 200 different legal entities in SKF around the world. SKF measures how many individuals are totaling these groups and proportion of women and men.

##### Managers

Those in SKF's eight big countries, who have people reporting to them, excluding executive management.

##### Professionals

The staff employees with no people reporting to them.

##### Total population

The average number of SKF employees.

#### 405-2 Ratio of basic salary and remuneration of women to men

Range Position (RP) is being used as a relative salary measure since it makes it possible to compare salary between positions and across countries. Range position is calculated for each employee by using the SKF salary structure in each country.

RP = annual base salary / Market salary midpoint per position class

##### Categorisation

In SKF, salaries are set by individual position classification, job category, performance and responsibilities. The Group uses an internationally well-known position classification system (IPE) for defining positions.

The complexity of the categorisation between job roles, job categories, position classification, country context and currencies make it challenging to present a detailed analysis. For this reason, SKF has chosen to divide the data into two categories in 2018:

- **Professionals** includes job roles such as entry, specialists, expert or team leaders.
- **Management** includes roles such as professional team leader, manager, senior manager or sub-function head.

Average ratio of salaries using range position (women/men)	Managers	Professionals
Total	-4%	-6%

##### Comments

On average, the data in the gender analysis indicates that the female employees on average have a salary 5.6% lower than the male employees. This measurement varies from -9.4% to -0.8% for the eight countries included in the analysis. There are also variations between job categories.

This gender analysis has not been able to account for factors such as age or years of experience for the employees. Such factors may explain some degree of the differences in relative salary.

##### Scope and data collection

The scope of the salary mapping includes a representative selection of SKF's biggest eight countries with a total of over 12,000 salaried employees (China, France, Germany, India, Italy, Sweden, the UK and USA).

For comparing salaries for men and women SKF uses relative salary for staff, i.e. the so-called range (in) position. The relative salary is calculated as base salary divided by market salary (mid-point). Using relative salary enables comparability of salaries independent of weight (i.e. PC). This is necessary as SKF normally has fewer individuals in higher position classes and also fewer women, which makes absolute comparison statistically inaccurate.

## Human rights

**Material topics: Non-discrimination, Freedom of association and collective bargaining, Child labour, Forced or compulsory labour, Human rights assessments**

This part of the report is prepared according to UN Guiding Principles on Business and Human Rights Reporting Framework as well as GRI Standards.

### 103-1 Materiality and boundaries

The human rights perspective has been part of SKF's work for decades and was formulated in the first edition of the SKF Code of Conduct, which was originally based on the SA8000 standard. As with other aspects, SKF's initial response to human rights was to start in its own back yard—looking at the Group's internal operations and processes, and then the supply chain with the responsible sourcing programme which was initiated in 2005. SKF owns and operates around 90 manufacturing plants across the world, employing around 27,000 people in different types of production. These facilities have local and global supply of components and raw material. Since the first assessment on risk to people, the salient issues for SKF have been related to women and men at work for SKF, or in the supply chain. The work is continually evolving as risk assessment and due diligence processes are maturing and as more knowledge is gained of how the Group's activities can have an impact on the people in proximity to the company's operations, its distribution, sales and end-use of products and services.

#### Modern Slavery Act 2015

AB SKF is committed to ensure that the companies within the SKF Group do not allow slavery or human trafficking. As with other human rights, this commitment extends to the supply chains used by the SKF Group. This statement is made pursuant to Section 54, Part 6 of the Modern Slavery Act 2015 and sets out the steps the SKF Group has taken to ensure that slavery and human trafficking are not taking place in company operations or supply chains.

### 103-2–103-3 Management approach, its components and evaluation (combined)

#### Background and policy commitment

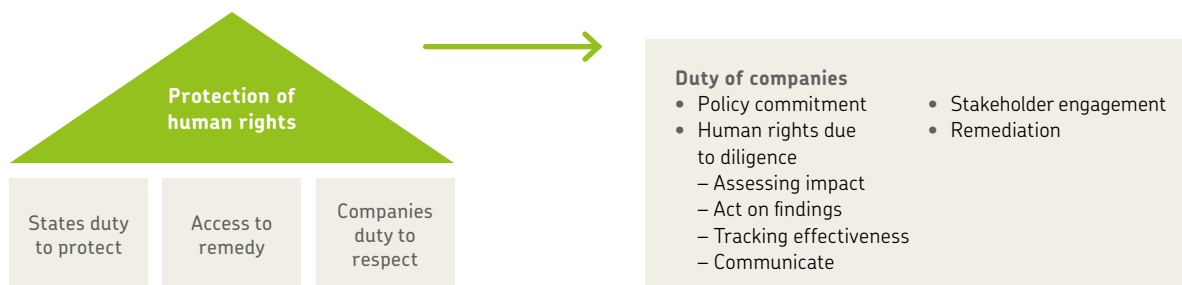
Initially back in 2002, the SKF Code of Conduct was established based on a number of international external principles and charters, such as ILO conventions and the International Chambers of Commerce Business Charter for Sustainable Development and later the UN Global Compact when the Group joined in 2006. The SKF Code of Conduct has since been used to develop many related policies on specific topics and to address business partners along the value chain. When the UN Guiding Principles were first launched, SKF's Code of Conduct was updated to fulfil the demands of the policy commitment. The Code is available on SKF.com/code and is part of commercial agreements with suppliers, subcontractors, distributors and agents. The SKF Code of Conduct is the main policy for human rights, backed up by adapted versions specifically addressing SKF-owned companies, suppliers, subcontractors and distributors but they are all based on the same principles.

SKF works to integrate human rights aspects in all processes where SKF sees a risk that people could be adversely affected. This means that in screening and audit activities, such as internal ethics and compliance reviews and audits, quality audits, code of conduct audits at suppliers etc., human rights are considered. Deviation or risks are resolved in the operations or escalated if needed. Alarming issues would be escalated from the Group's ethics and compliance committee and to the audit committee at board level. SKF Group management are continually being updated on specific issues, such as health and safety for SKF's employees and serious incidents. The Group's EHS (environment, health and safety), and responsible sourcing programmes are vital parts of managing salient human rights in SKF operations and supply chain.

#### Salient human right risks

As explained in the introduction, SKF perceives the salient human rights being related to freedom of association and collective bargaining, compensation, work hours, health, safety, wellbeing and discrimination. So far, the salient risks are associated to the supply chain. Lack of transparency and traceability means that the further upstream in the value chain, the more difficult it is to isolate concrete human rights risks.

Other human rights issues that SKF is following closely, although not deemed salient, are related to children's rights, child labour and young workers, and forced or bonded labour. SKF follows up closely,





first of all with potential new suppliers on their risks related to these human rights. In this work, SKF focuses on geographic regions where risks are higher, where rule of law and social inequality is weaker. SKF takes in third party data to assess the overall risks on human rights as reported in global statistics.

#### Stakeholder collaboration

SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to manage such risks. The primary stakeholder group with whom SKF has a direct relationship with the rights-holder is the employees, and so a formal social dialogue is held between local management and worker representatives. In addition to on-going dialogue, the SKF Group management meets annually with the SKF World Union Council.

SKF also keeps in close dialogues with peers and NGOs via networks such as the UN Global Compact and partakes in collaborations such as Railsponsible (specific to the railway industry), and RSPO (Roundtable on Sustainable Palm Oil) as a supplier of bearings and solutions into that industry.

#### Trends and patterns 2018

In 2018, there has been a continued focus on preventing harassments to safeguard safe workplaces. From assuming a number of unrecorded cases, the Group has emphasised the importance to report concerns, which has resulted in an increase in number of cases reported and questions asked. SKF's zero tolerance for harassment was emphasised during the year with mandatory trainings rolled out across the Group.

On labour related human rights, the annual conference between the SKF World Union Council and the Group focused on health, safety, decent jobs and automation driven by digitalisation. The SKF company wide business travel policy underlines that during business trips, the employee must adhere to SKF Code of Conduct and other Group Policies at all times during business travel, also during non-working hours.

#### Integrating finding and taking action

The SKF Code of Conduct implies that the different stakeholder aspects shall be taken into consideration prior to any business decisions. Should any decision be taken that may have adverse impact on human rights, meaning against the SKF Code of Conduct, the individual who records such an event is expected to report this via formal grievance mechanisms so that the decision can be avoided. For cases where the normal escalation routine is not an option, SKF uses the an externally hosted ethics and compliance reporting mechanism. Read more about ethics and compliance reporting on page 123.

The work to prevent adverse impact is a continuously ongoing task. The most obvious issues are related to freedom of association and collective bargaining as SKF has operations in countries where such do not exist. The Group works together with the World Union Council to seek pragmatic ways to bargain collectively and nominate worker representatives. This is to be in line with its global framework agreement with the union, while at the same time making sure to adhere to local laws, and not put employees at risk.

#### Tracking performance

SKF continuously addresses human rights at audits, both internally and in the supply chain. SKF has established that: if the Group finds cases, and then set up action plans with business partners to reduce risks or initiate remediation activities, this is considered effective management.

#### Impact from SKF's business and products

SKF works to continuously to reduce any negative downstream impact relating to its business. Given the nature of SKF's business, negative impact to people from the Group's products could be related to environmental performance. SKF works to ensure compliance to laws and regulations, and to phase out material and substance hazardous to people and the natural environment.

Looking at the business that SKF makes, the purpose of SKF's products and solution is to make things work better, run faster, longer, cleaner or more safely. SKF considers that business can drive prosperity and growth to overcome social issues over time. SKF's linkage to human rights infringements downstream in the value chain is so far considered weak. The work so far, which may be related to human rights, focuses on adhering to export control regulation. SKF has identified a few industry hotspots where the general human risks are higher, such as the extractive industries, forestry and energy as these are associated with significant land use. No actual cases of human rights violations linked to SKF risks have been identified.

#### 406-1 Incidents of discrimination and corrective actions taken

A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved.

#### 407-1 Operations and suppliers in which the freedom of association and collective bargaining may be at risk

The overall approach from the state towards union membership, and the level of independence of trade unions in certain countries where SKF has operations, creates challenges in this respect. SKF works pragmatically with the World Union Council and the appointed union representatives to try and address these challenges. Please refer to pages 124 and 137 for a description of the SKF World Union Council's work related to collective bargaining agreements.

#### 408-1 Operations and suppliers at significant risk for incidents of child labour

The issue of child labour is included in SKF internal and supplier audits. In 2018, SKF found no actual cases of child labour at its operations or at SKF's suppliers. A smaller number of cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the responsible sourcing programme, as explained below on next page.

#### 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour

The issue of forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2018, no cases of forced or bonded labour have been identified.

#### 412-1 Operations that have been subject to human rights reviews or impact assessments

All SKF's units are subject to human rights reviews as part of ethics and compliance reviews. These reviews include the full range of the Code of Conduct. All SKF's units are subject to review within a three-year interval using a risk-based approach. In 2018, 50 such reviews were carried out. In addition, sites undergo risk based in-depth audits on specific topics. Most in-depth audits related to human rights focus on health and safety. In addition, SKF carries out site audits at suppliers, read more on next page.

## Supplier assessments

**Material topics: GRI 414 – Supplier social assessment and GRI 308 – Supplier environmental assessment**

### 103-1 Materiality and boundaries

SKF addresses supplier impact on the environment, human rights, labor practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers but uses a risk based approach focusing auditing on tier one and sometimes tier two suppliers.

### 103-2–103-3 Management approach, its components and evaluation (combined)

SKF's responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for Suppliers and Sub-contractors. The programme is part of Supplier development, which covers areas of delivery, quality, product compliance and Code of Conduct. All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands and which must be met in order to be considered as an SKF supplier.

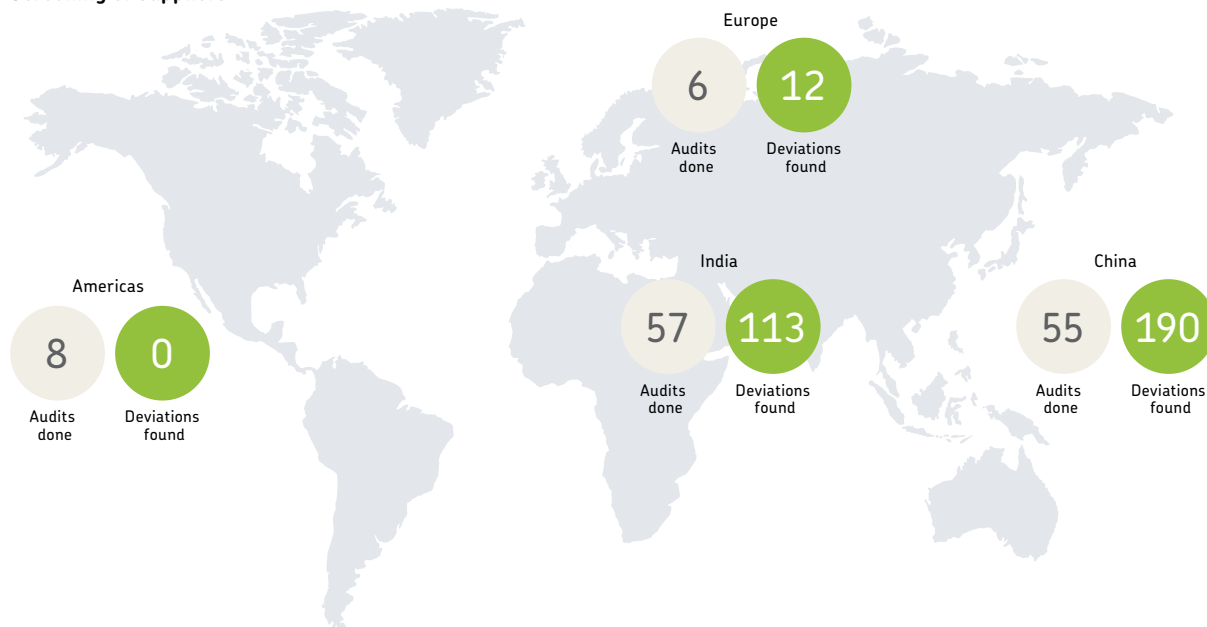
SKF's responsible sourcing strategy uses a risk based approach, where direct material suppliers making up 90% spend are automatically subject to audits if they are located in high risk regions, these can be both tier one and two suppliers. In addition to these, when

risks to people or the environment are flagged, during site visits or screenings, the suppliers are escalated to be audited. This can be any type of supplier e.g. professional services or other indirect material. Screening of suppliers are done using SKF's own risk tool and audits are always done on suppliers' locations by SKF specialists or third-party auditors. Warning signs may also be raised by other SKF staff visiting suppliers, such as at a quality review. The Code of Conduct audit procedure is based around a checklist with 62 specific questions focusing on a wide range of aspects, such as human rights and labour standards, environment, bribery and fraud.

Most non-compliance cases are managed by SKF's regional purchasing offices in alignment with global category managers until resolved. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee to decide ways of resolving complex issues. First and foremost, the work focuses on establishing a strong partnership and develop targeted suppliers. However, suppliers which fail to address critical issues over time risk having their contracts with SKF terminated.

In 2018, ten critical deviations were found at four suppliers in China. The cases were escalated to the Responsible Sourcing Committee, who decided to assign specific support to help these suppliers to improve. At the end of the year, the main problems have been solved and three out of four suppliers were confirmed as business approved. Sourcing was completely stopped and contract terminated

## Screening of suppliers



External risk maps, combined with SKF's operations and spend have resulted in a region or country focus when it comes to risk assessment audits and follow-ups.

with one supplier. During 2018, SKF worked to bring quality and Code of Conduct audits closer, striving to improve the process of escalate warning signs found during any supplier visits to a full Code of Conduct audit. The most common deviations found are related to compensation, work hours, employment contract procedures, health and safety, and pollution and waste control. The data reported in these statements are consolidating SKF's finding into GRI's designations.

#### **414-1, 308-1 New suppliers that were screened using social and environmental criteria**

All new suppliers of direct material in high risk countries are visited on site. In other countries, all new direct material suppliers are subject to a modular quality audit, which could include or trigger a code of conduct audit. Major suppliers in high risk countries are subject to re-audit. Indirect material suppliers are audited when awarded strategic sourcing status.

In 2018, 126 suppliers have been audited, total number of suppliers assessed in other ways cannot be disclosed. 41 out of 126 has been audited without negative impact identified. With the 85 other suppliers, all (100%) have confirmed improvements.

46 new suppliers were audited on site using environmental and social criteria and two of these were disqualified to supply to SKF.

#### **414-2 Negative social impacts in the supply chain and actions taken**

In 2018, 255 deviations to the SKF Code of Conduct in this category have been identified and are being resolved in the operations. The most common deviations are related to occupational health and safety, work hours, compensation and employment contracts procedures. Four suppliers with major deviations have been escalated to Responsible Sourcing Committee. All cases are prioritised and addressed according to their urgency.

#### **308-2 Negative environmental impacts in the supply chain and actions taken**

In 2018, 60 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to resolve these. In Asia, SKF has established a specific focus on environmental compliance. A short-list of suppliers with higher environmental risks has been identified in 2018 and the initiative focuses on helping local suppliers under development adhere to increasing demands. SKF has the management systems, competencies and experience to do this which is a competitive advantage in the local supplier development.

## Socioeconomic compliance

### **Material topic: GRI 419 – Socioeconomic compliance**

#### **103-1 Materiality and boundaries**

SKF addresses socioeconomic compliance as part of the Group's ethics and compliance programmes across the full value chain. Within this report, the focus is with SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, and treaties, and local regulation is one of the most important tasks a multinational enterprise can manage to support sustainable development. SKF works proactively to prepare for and live up to such requirements.

#### **103-2–103-3 Management approach, its components and evaluation**

SKF has also increased the awareness of sustainability and compliance related topics for its staff during the year. A Group wide programme of short online trainings was launched with content about data privacy, harassments, how to report ethical concerns, anti-corruption, safety at work and other topics. The programme continues into 2019 with more short topics specific mandatory trainings and is expected to further reduce risks of non-conformances with policies, laws and regulations.

One important compliance area for SKF is data privacy. The GDPR (General data protection regulation) came into force within the European Union in 2018 and puts clearer responsibility and higher accountability for companies handling personal data.

As SKF shares information globally, these rules affect SKF also outside the European Union. SKF was prepared to meet this increased responsibility; and had for example established a data privacy policy, appointed data protection officers, assessed and registered IT applications and reviewed supplier contracts.

SKF follows the development on OECDs tax transparency requirements. The Swedish government has included country by country reporting of tax to be filed to the national tax authority. SKF has filed such information but does not report publicly due to sensitive competitive information. Tax is increasingly an important sustainability topic and SKF makes its tax policy public on skf.com. The global bearings market, which is the main business of the SKF Group is made up of a few number of large enterprises. This is explained more on pages 4–5 and 34. This means that by publicly disclosing earning and taxes per country, or even by region can provide competitors information on exactly where SKF do business. This information would be highly valuable for any competitor. For this reason SKF will not disclose taxes or earnings by country publicly.

In addition to the above topics and other socioeconomic areas reported within these statements, SKF works closely to ensure compliance to topics such as corruption money laundering, export control and human rights.

#### **419-1 Non-compliance with laws and regulations in the social and economic area**

No cases of non-compliances related to these topics have been identified.

# Auditor's Limited Assurance Report on Sustainability Report and Report on the Statutory Sustainability Report

**To the general meeting of the shareholders in AB SKF (publ), corporate identity number 556007-3495**

## Introduction

We have been engaged by the Board of Directors of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2018 in the sections "Sustainability Statements" and "Objectives and results – environmental and social", as well as "GRI-Content Index" published on SKF's website. We refer to these disclosures collectively as the "Sustainability Report". The statutory sustainability report is defined on page 120.

## Responsibilities of the Board and Group Management

The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the statutory sustainability report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 120 of the Sustainability Report, and consist of the parts of the framework for sustainability reporting published by GRI (Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed. This responsibility includes the internal control relevant to the preparation of a sustainability report that is free from material misstatement, whether due to fraud or error.

## Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed, and to provide opinion statement on the statutory sustainability report.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. We have conducted our review regarding the statutory sustainability report in accordance with RevR 12, *Auditor's Report on the Statutory Sustainability Report*, issued by FAR. A limited assurance engagement and a review according to RevR 12 have a different focus and

a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to AB SKF (publ) according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the same level of assurance that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

## Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

A statutory sustainability report has been prepared.

Gothenburg, 5 March 2019  
Öhrlings PricewaterhouseCoopers AB

Peter Clemedtson  
Authorised Public Accountant

Fredrik Ljungdahl  
Expert Member of FAR

## Appendix

Our limited assurance engagement has, based on an assessment of materiality and risk, included the following procedures:

- Update of our knowledge and understanding of SKF's organisation and activities,
- Assessment of suitability and application of the criteria regarding the stakeholders' need for information,
- Assessment of the outcome of the company's materiality analysis and stakeholder dialogue
- Interviews with management at group level and visits to selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,
- Examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
- valuation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
- Analytical procedures of the information stated in the Sustainability Report,
- Assessment of the company's declared "in accordance" option according to the GRI Standards,
- Assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.